October 31, 2022

Sandra Thompson
Director
Federal Housing Finance Agency
400 7th St SW
Washington, DC

RE: FHLBank System at 100: Focusing on the Future

Dear Director Thompson:

The Independent Community Bankers of America (ICBA) appreciates this opportunity to both participate in FHFA's recent listening session on September 29th and provide written comments on ICBA's position regarding the Federal Home Loan Bank (FHLB) system as part of the Federal Housing Finance Agency's (FHFA) review of the Federal Home Loan Bank System at 100: Focusing on the Future.

As stated during the listening session, over ninety-five percent of ICBA members belong to their regional FHLB. Many of our members participate on the FHLB boards and committees. The FHLBs have been a key part in helping community banks drive economic development and housing in the communities they serve for ninety years. As such, we urge FHFA to first do no harm to a system that is safe and sound and consistently fulfills its mission.

Community banks and the FHLBs have enjoyed a long and successful relationship over the past ninety years. Community banks provide local knowledge and local contact with builders, small businesses, economic development officials, and community leaders. The FHLBs in turn provide the necessary liquidity needed to complete many local projects. The FHLB System expands and contracts as needed, depending on the level of economic activity and the level of bank deposits needed to meet the lending needs of local customers. While some have suggested the system does not meet the needs of today's market, our members, who provide the capital to the system, suggest just the opposite. The system does work and works very well.

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One of the main reasons the FHLB system has worked so well for ninety years is that the FHLBs deal primarily with insured, prudentially regulated depositories – primarily banks and credit unions, along with certain CDFIs and insurance companies. These are the entities that have the capital and balance sheet capacity to hold the eligible collateral - in either whole loan form or in securities - to secure an advance from the FHLBs. In the case of a failure of a member bank or credit union, this collateral can be easily liquidated by a FHLB and the advance repaid. Further, in the case of a bank or credit union failure, the FDIC and NCUA provide the FHLBs the ability to "seize and liquidate" any collateral that secures an advance prior to the full resolution of the troubled institution, which then shields the FHLBs and its members from a loss. While insurance companies are not federally regulated, the FHLBs work with state insurance regulators to obtain similar agreements. Throughout the various recessions and market challenges over the last ninety years – including the 2007 financial crisis, the savings and loan crisis of the late 1980s, and the recent pandemic – there has not been a failure of a single FHLB, and taxpayers have not been called upon to support the FHLB System through a bailout.

It is critical that community banks can access FHLB advances during times of economic stress or when there are opportunities to increase lending, participate in a local project, or help first time homebuyers. In recent months, there has been a growing concern about continued access to FHLB advances due to inconsistent capital regulations between FHFA and the Primary Federal Regulators (PFR). FHFA's capital regulations determine minimum tangible capital by counting temporary unrealized losses against tangible capital. Due to recent economic volatility and rapidly rising interest rates, even the safest securities are experiencing unrealized losses in Available For Sale portfolios. If unaddressed, this trend will ignite an unnecessary crisis and further undermine otherwise safe and sound community banks' access to liquidity through the FHLBs. We strongly urge you to work with the PFRs to address this regulatory inconsistency.

Consistent and reliable access to advances must be balanced alongside keeping the FHLB System safe and sound. Working with only prudentially regulated institutions and allowing only certain types of collateral goes a long way in keeping the system safe going forward. The introduction of non-regulated entities and esoteric and volatile forms of collateral will lead to increased risk within the system, a greater possibility of losses, and a potential failure of a FHLB, thereby increasing costs for all who rely on the system. While those losses would be shared by all members throughout the system, increased costs fall hardest on the smallest institutions that depend on the system and do not have alternative access to the capital markets or other sources of wholesale liquidity.

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The FHLBs must remain a strong, stable, and reliable source of funding for community banks and, as such, ICBA opposes any changes that would:

1. Compromise the System's regional and cooperative structure.
2. Permit non-depository entities — which are not prudentially regulated — to access FHLB programs or services.
3. Consolidate the System without the grassroots leadership of its member-owners.

ICBA supports FHFA's efforts to conduct a thorough review of the FHLB System, and ICBA member banks look forward to participating in the upcoming regional roundtable sessions.

ICBA appreciates the opportunity to provide these written comments and our recent participation in the September 29th listening session in Washington, DC. We look forward to working with FHFA on this important initiative.

Sincerely,

Ron Haynie
Senior Vice President- Housing Finance Policy

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